

The Farmers State Bank, Brookston, Indiana

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of **The Farmers State Bank, Brookston, Indiana** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **April 28, 1997**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

INSTITUTION'S RATING: This institution is rated **Satisfactory**

The Farmers State Bank promotes economic revitalization and growth within its assessment area consistent with its size, financial capacity, locations and current economic conditions. The reasonable loan-to-deposit ratio, adequate percentage of loans within its assessment area, and dispersion of loans among borrowers of different income levels and businesses of different sizes evidence the bank's satisfactory performance. No prohibited discriminatory lending policies or practices were detected during the examination.

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DESCRIPTION OF INSTITUTION

The Farmers State Bank, with assets of \$36 million as of March 31, 1997, is located in Brookston, Indiana. The bank has one full-service branch office located in Battleground, Indiana. Each facility has an automated teller machine (ATM).

The bank's primary consumer products are residential mortgages and installment loans. According to the December 31, 1996, Consolidated Report of Condition, residential mortgage loans comprised 51% of the bank's gross loans and leases. Other products offered by the bank include business, agricultural and student loans.

The bank's competitors, which are primarily branch offices of larger institutions, include Lafayette Bank and Trust Company, Brookston; Bank One, Lafayette; Lafayette Savings Bank, FSB, Lafayette; NBD Bank, N.A., Lafayette; and Purdue Employees Federal Credit Union, Lafayette. Peoples Savings & Loan Association and State Bank of Oxford, both located in Monticello (approximately 15 miles north Brookston), are also competitors.

DESCRIPTION OF BANK'S ASSESSMENT AREA

Brookston is located in White County, approximately 15 miles north of Lafayette, Indiana, and 85 miles northwest of Indianapolis. The bank's assessment area includes Block Numbering Area (BNA) 9588 and census tract numbers 101.00, 102.01 and 102.02. The branch is located in Tippecanoe County is part of the Lafayette Metropolitan Statistical Area (MSA). The institution's assessment area contains whole geographies, as required by the regulation. The assessment area does not reflect illegal discrimination, and management does not arbitrarily exclude any low- or moderate-income geographies.

According to 1990 census data, the bank's assessment area has a population of 39,941, of which Whites constitute 39,371 or 98.6%. According to the Indiana Department of Workforce Development, the 1995 population estimates for White and Tippecanoe Counties are 24,505 and 135,285, respectively. The MSA median family income is \$34,977, and the assessment area median family income is \$32,679. There are a total of 11,023 families within the assessment area, of which 1,646 or 14.9% are low-income; 2,218 or 20.1% are moderate-income; 2,912 or 26.4% are middle-income; and 4,247 or 38.5% are upper-income. Of the 18,082 housing units within the assessment area, 11,222 or 62.1% are owner-occupied; 3,613 or 20% are renter-occupied; and 3,247 or 18% are vacant units. The median home value within the assessment area is \$54,508 and the median gross rent is \$358. According to a community representative, Brookston has a number of 1-4 family subdivisions currently under construction due to the city's low tax base and affordable home prices.

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Community representatives indicated that the majority of Brookston and Battleground's workforce commutes to Lafayette for employment opportunities. According to the 1996 Indiana Manufacturers Directory, the major employers within Lafayette are as follows:

EMPLOYERS	# OF EMPLOYEES	PRODUCTION/SERVICE
Subaru-Isuzu Automotive Inc	2272	Automobiles & Trucks
Caterpillar Inc	1400	Tractors/Heavy Equipment
Eli Lilly & Company	1300	Pharmaceutical/Agricultural
Aluminum Co. Of America	800	Aluminum Extrusion & Tubing

The March 1997 unemployment rate for White County is 8.6%, an increase from 6.8% in March 1996. Tippecanoe County's unemployment rate declined from 3.1% as of March 1996 to 2.2% as of March 1997. As a comparison, the State of Indiana's unemployment rate also declined from 4.8% as of March 1996 to 3.6% as of March 1997.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Management has implemented policies and procedures to prevent discrimination in its lending practices. The institution is in compliance with the substantive provisions of antidiscrimination laws and regulations, including the Fair Housing and Equal Credit Opportunity Acts.

Loan-to-Deposit Ratio

The bank's loan-to-deposit ratios over the most recent six quarters (December 1996 through March 1997) averaged 67.56%. The following chart compares the bank's loan-to-deposit ratio and total assets to its local competitors and national peer (peer data as of December 31, 1996).

Bank	Loan-to-Deposit Ratio	Asset Size
The Farmers State Bank	68%	\$36 million
Bank One	161%	\$996 million
Lafayette Savings Bank, FSB	133%	\$172 million
NBD Bank, N.A. (Branch of Indianapolis)	99%	\$10 billion
Peoples Savings & Loan Assoc.	96%	\$45 million
Lafayette Bank & Trust Co. (Branch of Lafayette)	79%	\$378 million

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Bank	Loan-to-Deposit Ratio	Asset Size
State Bank of Oxford (Branch of Oxford)	75%	\$62 million
National Peer	62%	*

SOURCE: Fall 1996 edition Mc Fadden American Financial Directory

*national peer includes all insured commercial banks having assets between \$25 million and \$50 million with 2 or less offices, and located in a non-metropolitan area.

Considering Farmers State Bank's asset size and capacity to lend within its assessment area, its ratio, as compared to competitors, is reasonable and meets the standards for satisfactory performance.

Lending in Assessment Area

The bank's 1996 Home Mortgage Disclosure Act (HMDA) data and a six-month sample of the bank's primary loan products were reviewed to evaluate the bank's performance under this criterion. The bank's 1996 HMDA data revealed that of the 57 loans originated, 42 or 73.68% were made to borrowers within the bank's assessment area. A six-month sample of the bank's primary loan products (1-4 family real estate and installment) revealed the following distribution:

Assessment Area	# of Loans	Percentage of Total Loans	Total Dollar Amount of Loans	Percentage of Total \$ Amount
In	56	64.37%	\$1,168,113.00	70.28%
Out	31	35.63%	\$494,065.00	29.72%
Total	87	100%	\$1,662,178.00	100%

As the preceding chart illustrates, 64.37% of the total number of loans, and 70.28% of the total dollar amount of loans were made within the bank's assessment area. The level of lending within the assessment area, according to the HMDA data and the six-month loan sample, meets the standards for satisfactory performance.

Lending To Borrowers of Different Incomes and to Businesses of Different Sizes

Lending to borrowers of different incomes:

The bank's 1996 HMDA data and a six-month sample of the bank's primary loan products were reviewed and compared to the demographic information within the bank's assessment area. The 1996 HMDA data revealed the following distribution of loans among borrowers of different incomes:

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The Farmers State Bank, Brookston, Indiana 1996 HMDA REAL ESTATE LOANS			
Borrower Income Levels	Number of Loans	Percent Total	Total Amount of Loans
Low-Income	4	7.02%	\$86,000.00
Moderate-Income	9	15.79%	\$395,000.00
Middle-Income	9	15.79%	\$493,000.00
Upper-Income	35	61.40%	\$2,175,000.00
Total	57	100%	\$3,149,000.00

The preceding chart illustrates that of the bank's 1996 HMDA-related real estate loans, 22.81% were made to low- and moderate-income borrowers, and 61.40% were to upper-income borrowers.

A six-month sample of the bank's primary loan products (real estate and installment) revealed the following distribution of loans among borrowers of different income levels:

Loan Type	Low-Income Borrower \$/Number	Moderate-Income Borrower \$/Number	Middle-Income Borrower \$/Number	Upper-Income Borrower \$/Number	Total \$/Number
Real Estate	\$000/0	\$73,000/2	\$268,600/5	\$909,000/17	\$1,250,600/24
Installment	\$82,696/19	\$89,082/16	\$63,315/10	\$176,485/18	\$411,578/63
Totals	\$82,696/19	\$162,082/18	\$331,915/15	\$1,085,485/35	\$1,662,178/87

The preceding chart illustrates that the bank originated loans to borrowers of all income categories. Nineteen or 21.84% of the 87 sampled loans were made to low-income borrowers, and 18 or 20.69% were to moderate-income borrowers. Approximately 15% of the total dollar amount of loans were to low- and moderate-income borrowers. This lending activity reflects the bank's efforts to meet the credit needs of borrowers of all income levels and is consistent with the assessment area's demographics.

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Lending to businesses/farms of different sizes:

Review of the bank's June 1994, 1995, and 1996 Consolidated Reports of Condition showed the following small dollar amount loans outstanding:

Loan Type and Loan Amount	1994	1995	1996
Loans Secured by Nonfarm, Nonresidential Property			
\$100,000 or less	24	22	24
\$100,000 through \$250,000	2	3	1
Commercial and Industrial Loans			
\$100,000 or less	85	85	94
\$100,000 through \$250,000	4	3	8

Loan Type and Loan Amount	1994	1995	1996
Loans Secured by Farmland			
\$100,000 or less	33	35	35
\$100,000 through \$250,000	16	15	11
Loans to Finance Agricultural Production and other Loans to Farmers			
\$100,000 or less	54	53	59
\$100,000 through \$250,000	8	9	10

The preceding chart illustrates that the number of loans outstanding remained fairly constant over the three-year period; however, in 1996, commercial and industrial loans (less than \$100,000) increased by nine or 10.58% and loans to finance agricultural production and other loans to farmers (less than \$100,000) increased by six or 11.32%. Management attributed these increases to the healthy local economy, and its efforts to meet the credit needs of local businesses and farmers.

The compliance loan sample of 20 commercial and agricultural loans revealed that all of these loans were made to small businesses or small farms (less than \$1 million in annual revenue).

The bank's lending activity to borrowers of different incomes is considered reasonable and lending to businesses of different sizes is strong; therefore, the bank exceeds the standards for satisfactory performance in this criterion.

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Geographic Distribution of Loans

There are no designated low- or moderate-income census tracts or BNAs within the bank's assessment area; therefore, this criterion was not evaluated.

Response to Substantiated Complaints

No complaints were received by the institution regarding its CRA performance since the previous examination.